

Application of CRM in Offering Insurance to Commercial Vehicle Loan Borrowers



Prasanta Kumar Suar, Sasmita Mishra

Abstract: *Commercial vehicle loan borrowers of India constitute a segment of customers with a unique socio-economic background, financial literacy level and lifestyle. Lending money to that segment involves high risk. Keeping this fact in mind, the studied company attempted to understand the need of this segment, explored the various lifestyle issues affecting the loan repayment and the financial loss to the customer's family. Then, base these explorations, the company developed unique initiatives that would not only retain customers, but add value to the customers and the family. Such initiatives are quite relevant to the present context when all financial companies have been geared up to create value through unique approach to customer relationship. With this backdrop, this paper enumerates one of such unique CRM initiative taken by the studied company and tries to measure its effectiveness by analysing the primary and secondary data taken on different dimensions of effectiveness. The paper has been presented as a case study of one non-banking financial company that has developed unique CRM initiatives. This case can throw insight into the ways financial companies are doing relationship marketing.*

Keywords : CRM, financial service, life insurance, Relationship marketing.

I. INTRODUCTION

Customer Relationship Management (CRM) is a kind of business approach intended at strengthening the relationship with customers by integrating people, process and technology of the organisation. This approach enables the organisation to be aware of the customer needs in detail and customise the products and services accordingly. The ultimate objective is to retain the customer, and enhance their satisfaction and loyalty towards the organisation. As the relationship flourishes, both the business and customer benefit (Chen & Ching, 2007). Hence, CRM has started to play pioneering role in the growth of such organisations those have given priority to understanding the customer needs and align the services and products accordingly.

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The goal of financial service institutions is to provide offers based on needs. CRM being a complex process, based on the adequate knowledge on the lifestyle, habit, need and behaviour of the customers (Laketa et. al. 2015), helps financial service institutions develop new products and serve their customers better. Although there has been observations and opinions on unbundling of financial products (Peppard, 2000), in case of the customer segments discussed here, cross selling of products was assumed to be beneficial. People with low financial literacy along with low income usually struggle with obtaining relevant sources of financing and are likely to get into the debt trap (Lushardi & Tufano, 2015). Hence, the financial products targeting at such segment has to be carefully crafted to create optimum satisfaction and retain customers. According to Chakrabarty (2012), Deputy Governor of the Reserve Bank of India, the financial institutions should develop the financial products based on the need and life of customers to survive in the market. The study is based on a financing company that has understood the psyche of this customer segment and developed bundled financial service as a CRM initiative.

II. REVIEW OF LITERATURE

A. CRM in Banking and Financial Companies

Banking and financial institutions have become more customer-centric in order to sustain and prosper in the competitive market. According to Ramaj (2015) a customer-centric management system consists of two main parts i.e. a) analysis of customer data; b) proposed modalities. Such a system help use large amounts of data on their customers, to allow their classification based on the characteristics, needs and / or their behaviour, so that the bank can develop different strategies for each category. Similarly, Onut, Erdem, and Hosver (2008) had developed a CRM model in banking sector for its performance improvement. According to them, CRM is the one that helps businesses use technology and human resources to gain insight into the behaviour of customers and the value of those customers. If it works as hoped, a business can provide better customer service, make call centres more efficient, cross sell products more effectively, help sales staff close deals faster, simplify marketing and sales processes, discover new customers, and increase customer revenues. Customer Relationship management is the strongest and the most efficient approach in maintaining and creating relationships with customers according MSG Study Guide (2014) on importance of CRM.



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Customer relationship management is not only intended at doing pure business but also ideate strong personal bonding within people. Development of this type of bonding drives the business to new levels of success. Once this personal and emotional linkage is built, it is very easy for any organization to identify the actual needs of customer and help them to serve them in a better way. It is a belief that more the sophisticated strategies involved in implementing the customer relationship management, the more strong and fruitful is the business.

Customers increasingly demand a comprehensive coverage of their financial requirements. This forces financial services companies to offer customer support for every financial requirement, ranging from account management to life insurance and the granting of a home loan, realizing the idea of “one-stop finance”, which is also termed “Bankassurance”. In their work, “Collaborative customer management in financial series alliances”, Geib, Kolbe, and Brenner (2003) note that the integration of different financial services is often realized by specialized companies (relationship managers) that have direct contact to customers as distribution intermediaries. Moreover, Customer Relationship Management concept emerged as a response to decreasing customer loyalty in different industries.

According to Rathod (2012), Relationship-based Marketing approach has several benefits to the financial services organisation. In the long run, the loyal customers would buy more products from the same retail bank and also would prefer to refer others. Moreover, when the relationship becomes more matured and longer, the banks become more aware of the needs and expectations of their customers. Such understandings help them provide customized products and services and develop more cross-selling products. Long term relationships also helps banks reduce operating costs to some extent.

B. Risk and Insurance Products

Different terms have been used to define risk: the chance of loss, the possibility of loss, uncertainty, the dispersion of actual from the expected results, the probability of any outcome different from the one expected. However, Vaughan, (2004) provides a very comprehensive definition of risk by stating it as a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for

Life insurance is a plan based on the money pooled from different people and is intended at sharing the risk. This can act as a protective measure as well as an avenue to save money. Premiums are paid to an insurance company. The policy states what the company will do and when, and tells how much money the company will pay to the policyholder or the beneficiaries under various conditions (Stephenson, 2000).

Any life insurance product is aimed at addressing two most important risks in human life i.e. risk of early death and the risk of living longer. Life risk cover provided by a life insurance policy ensures that the insurance company pays the full sum assured to the dependents of life assured. The availability of a corpus helps the dependents to continue to maintain their life style (Radhakrishnan, 2009). Rejda (2004) mentions that for insurance to work successfully the

loss must not be catastrophic and it means that a large proportion of the exposure units should not incur losses at the same time. Pooling is the essence of insurance. If most or all the exposure units in a certain class simultaneously incur a loss, then the pooling technique breaks down and becomes unworkable.

According to Bodla, et al (2003), life insurance products have manifold impact on the economic well being of the customer and his family. The benefits to an individual can be classified into the following: Risk cover, Compulsory savings, Credit protection, Savings for a need, Tax relief. Credit protection insurance not helps the customers to ensure any loan amount, but also it helps the company recover NPA smoothly. Designing such an insurance product that caters to the needs of a particular segment of people requires an in depth understanding of the customers through frequent contact with them. The company under study has transformed its structure by appointing relationship executives who remain in personal touch with each and every customer to not only solve their problems, but understand their needs and lifestyles. Such structural changes have helped the company develop unique CRM initiatives. In this paper we are discussing about the insurance product (credit shield) developed by the company to insure the vehicle loan. We describe this initiative as a unique CRM initiative by explaining the philosophy behind the development of the product and its impact on the customer loyalty and satisfaction.

III. OBJECTIVES

Main objective of the study is to evaluate the effectiveness of an unique CRM initiative undertaken by an Indian financial services company. Hence, this paper enumerates how the CRM initiative was developed by understanding the needs of the customers and till date how successful this initiative has been in terms of increasing the customer base and enhancing the satisfaction of customers.

IV. METHOD

The study uses a case study method where an organisation has been taken as a unit of analysis. Further, the paper focuses on one CRM initiative taken by the organisation. The data sources were both quantitative and qualitative. Being in the senior management of the company, one of the authors had counted on his experience in describing how the need for such initiative was felt in the organisation. Further, secondary data were gathered from the sales record of the company. A pan India survey was also conducted on 299 customers to get feedback on different aspects of the company. This paper uses the data on satisfaction of customers with the insurance and the relationship executive from that survey and juxtaposes with other qualitative and quantitative secondary data to create a strong base for the evaluation of the effectiveness of the CRM initiative.

V. THE CASE: SHRIRAM TRANSPORT FINANCE COMPANY LIMITED (STFC)

Shriram Transport Finance company Limited is a structurally important Non-Banking Finance company registered under the Reserve Bank of India. STFC is a Leading player in organized high yield pre-owned commercial vehicle (CV) financing segment. It has a lending portfolio which is diversified consisting of commercial vehicle, construction equipment and tractor financing to more than 18.60 lakh customers. Commercial vehicles (preowned) segment constitute 84% of the total portfolio. STFC has a vast network of 1213 branches and 862 rural centres. Small vehicle owners (less than 5 trucks) with underdeveloped banking habits are the primary customer segment for STFC.

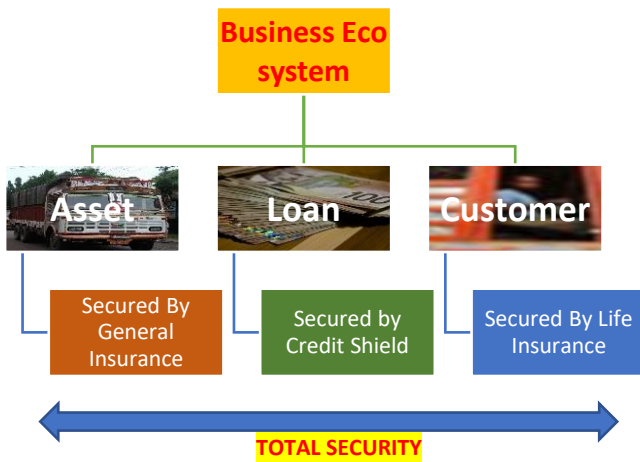


Fig 1. The business ecosystem of STFC vehicle loan segment

A. Understand the Customer Need

DA customer taking the vehicle loan has to face either of any three kinds of environment: normal cycle, risk environment, risk free environment (fig 2).

Normal Environment: This cycle describes the life cycle of the liability being Created, Maintained and Paid by the customer. In a normal environment like this an eligible customer approaches the Finance company who provides him a loan after completing due diligence. The customer goes through the full loan period enjoys the loan (Liability), creates wealth and pays back (Clears Liability) as per the agreed terms, tenure and ultimately owns the asset. There is a happy ending for the total cycle. The customer as well as the family feels happy and the income source from the loan free asset brings in prosperity and status in the society.

Risk Environment: As said above in the case of Normal Cycle everything goes well as per the cycle till the time the customer is alive. In the unfortunate incident where the customer meets with a death, thereby leaving a liability in terms of unpaid future loan outstanding, everything takes a drastic turn. The payment cycle gets disturbed as the income source dries up due to the untimely death of the customer. There are instances where either the family surrenders the asset to the finance company or it is taken over by the

finance company due to the non- payment of the loan. It at times leads to legal complications if the sale proceeds from the asset does not clear up the loan outstanding. This is quite heavy on the family as well as on the asset financing company. The customer’s family loses the asset as well as the income source and the life become very miserable. The basic needs of the family at times looks very difficult to manage. The asset finance company on the other hand faces an uphill task of managing the regulatory requirement of managing the NPA level to maintain its credit rating. It also becomes very difficult for the company to repay the investors who have invested their hard earned money in the company. **Risk Free Environment:** This is the environment where the total risk is covered by the pre-emptive steps taken by the asset financing company by way of appropriate CRM initiatives. It has been observed during an internal study that due to the nature of the customer’s work, food and other habits, the probability of mortality of this segment is high. When the customer dies, STFC is left with no option but to repossess the vehicle financed to recover the outstanding dues and this leaves nothing for the customer family for their sustenance. In order to help the family to benefit out of the asset and to reduce the Non-performing assets due to the death of the borrower, STFC has started to offer group life insurance cover in tie up with Shriram Life Insurance Company to the borrowers. This group product offers life insurance cover during the term of the loan and in the eventuality of death of the borrower the sum assured is paid to STFC to help to close the outstanding loan and leave the asset for the benefit of the family.

B. Credit Shield Insurance as a unique CRM Initiative

Credit Life insurance is a group insurance product offered by life insurance companies. This product is offered to the borrowers through the lending institution. Borrowers are grouped according to the loan type and are offered life insurance cover to the extent of the loan amount for the term of the loan. Credit life insurance is a simple risk cover product and the life insurance company pays the lender the loan amount as death claim in the event of death of the borrowers. Recoveries of outstanding loan, prevention of NPA, and benefit to the family of the borrowers are some of the benefits to the lending organisation in respect of credit life insurance product. As far as the borrower is concerned, since the outstanding loan amount is paid to the lender by the insurance company, the asset becomes the property of the family and the family is saved from the harrowing experience of repaying the loan otherwise. Shriram Transport Company tied up Shriram Life insurance company in offering the Credit Life insurance product to the commercial vehicle loan customers.

VI. THE EVALUATION OF CRM EFFECTIVENESS

To know whether this CRM initiative has been effective we have taken number of measures such as number of borrowers, count of customers and premiums, and death claims along with certain subjective measures of satisfaction.



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A. Secondary quantitative data analysis

The below mentioned table (Table 1) presents the details of life insurance cover provided to loan borrowers of STFC through credit life product. The data presented here for three consecutive financial years reveals that the acceptance rate of the product is in increasing trend.

It can be observed from the table presented above that on an average about 5 lakhs customers are offered credit life insurance per year. The average life insurance sum assured per borrower has also increased from Rs. 2.79 lakhs in 2015-16 to Rs.3.30 lakhs in 2017-18, indicating that the

customers are moving up the value chain in respect of the primary loan product. The data is further elaborated through a graph (Fig. 3).

Table 1 – Details of Life insurance to STFC borrowers

Year	No of Customers	Group Insurance Premium	Average Premium per customer	Total Sum Assured	Average Sum Assured per customer
	in Lakhs	Rs in Crs	Rs	Rs in Crs	Rs in Lakhs
2015-16	5.53	144	2598	15,407	2.79
2016-17	3.47	96	2756	10,263	2.96
2017-18	6.60	201	3052	21,760	3.30
Total	16	441	2,825	47,429	3.04



Fig 2. Credit Shield Insurance as a unique CRM Initiative

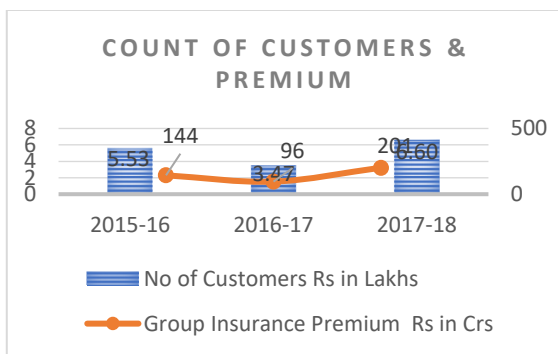


Fig 3 Count of customers and premium

The average premium per customer and average sum assured, i.e. life insurance cover provided are presented below (Fig. 4). As the product gets the acceptability, we observe that both the average premium per customer and average Sum Assured are showing increasing trend.

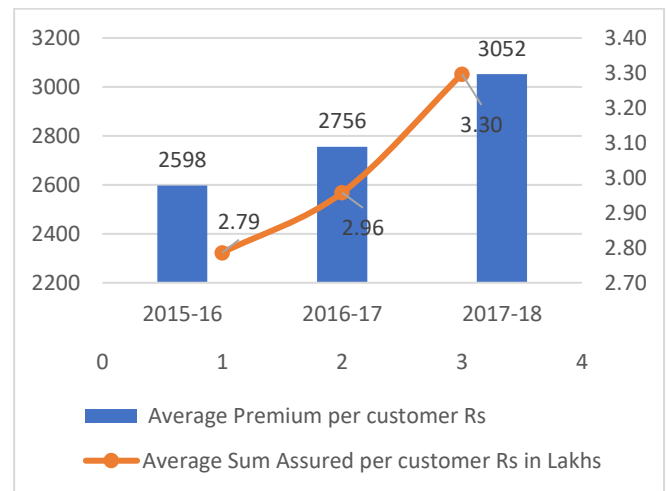


Fig 4. Average Premium & Average life cover per customer

Along with the average sum Assured, the average claim amount per customer has also shown increasing trend during the analysis period. The test of any product or service is defined only when the benefit of the product flows back the customer. Hence, we have taken the count of death claims to ensure that customers are really benefited by the product. The table-2 presents the number of death claims paid to the borrowers of STFC, total claim amount paid and also the average death claim amount per customer.

It means the stress to the family members of the deceased borrowers to the extent of Rs.199 crores during the 3 year period has been removed due to the fact that the customer has availed the credit life insurance. Secondly, from STFC perspective the recovery effort in the event of no insurance has been removed fully and the relationship with the customers' family continues without any negative feelings, which normally arose on account of recovery efforts.

Table 2: Details of death claim

Year	No of death claims paid	Claim amount (Rs in Crs)	Average Death claim amount (Rs in Lakhs)
2015-16	2,615	50.46	1.93
2016-17	3,691	76.56	2.07
2017-18	3,362	72.17	2.15
Total	9,668	199.19	2.06

To sum up offering of the life insurance products to the borrowers, STFC has a positive effect on both the family of the deceased borrower and also on STFC. The increase in the cost of the vehicle and the running cost (Spares, Repairs & Manpower) has pushed up the loan exposure of the borrowers which in turn has increased the liability. More the liability, more the risk which needs to be covered. Awareness being low in this segment, customers view this as an avoidable expenditure. Hence the penetration in this segment is very low. It is really a very cumbersome job to create awareness in one hand and to get the premium collected in cash on the other hand. Most of the cases die a natural death even if there is a wish to take Life Insurance to minimise the risk due to the liquidity crunch on their part. But with an initiative like this where the risk gets covered without paying the premium instantly by cash, many a customer have shown interest and quite obviously the benefits arising out of that made the SRTO (Small Road Transport Operator) community very open to the scheme. This is evident from the above graph (fig 5) that the average sum assured per customer has gone up from Rs. 2.79 lakhs in 2015-16 to Rs. 3.30 Lakhs in 2017-18. It is also evident that per customer average claim amount has also been increased from Rs. 1.93 lakhs in 201-15-16 to Rs. 2.15 lakhs in 2017-18. It gives a fair amount of idea that the enhanced risk appetite is adequately covered as per the prevailing situation. The credit shield life insurance product has helped STFC in retaining the customer or their family within their fold. The availability of truck with the family of the deceased borrower provided an income earning opportunity to the family as the future outstanding amount which was due for the said agreement is credited to the loan account of the borrower as per the terms of the Life insurance plan. Hence, being the vehicle free from all the loan liability is now available to be operated by the family of the customer thereby giving an opportunity to earn and rebuild their life.

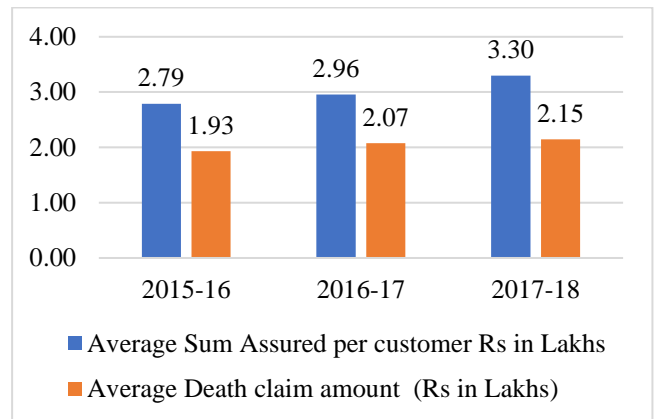


Fig 5. Comparison of Average Sum Assured Vs Average claim amount

B. Primary customer satisfaction data analysis

To substantiate the effectiveness of relationship marketing by the company, we had undertaken a survey on 299 customers covering different locations of India. Following table (table 3) presents the satisfaction of customers in different aspects. The satisfaction on the parameters mentioned in the table was measured in a 5-point rating scale 1 implies not at all satisfied and 5 means very much satisfied. The average scores on each dimension indicates that the customers are nicely taken care of by the relationship executives, their needs and requirements are addressed properly. They are not only happy to be connected to the company but also, they see a great future in being associated with customers. Hence, it can be inferred that the company has been successful in maintaining customer relationship.

Table 3. Satisfaction level of customers

	Executives are in regular touch	All products explained clearly	All my needs and requirements were addressed	Issues and grievances addressed suitably	Properly advised on financial matters	I see a great future in my association
Mean	4.46	4.18	4.30	3.88	3.97	4.12
N	299	299	299	298	299	299
SD	0.942	0.861	2.529	0.888	1.062	0.985

C. Structural change for better customer relationship

Organisations often face difficulty in implementing a relationship approach and formulate different aspects of CRM majorly because of its structure (Dibb & Meadows, 2001). This company has adopted a unique structure by appointing relationship executives (RE) attached to each customer segment so that they can get advices and information as and when required. Additionally, these REs also collect in depth information about the needs of the customers through personal contact with each customer. The information collected by them are further converted into new offerings or products.

VII. DISCUSSION AND CONCLUSION

There is significance of relationship marketing and maintaining loyal customer base in financial services because of the product complexity and intangibility in this business (Berry, 1996). Researchers have found out how small increase in retention rate of customer (Reichheld and Kenny, 1990) and few extension in customer lifecycle (Mitchell, 1995) can result in higher margin and customer profit. In line with these findings, this case study enumerates how cross selling a life insurance product through relationship marketing has led to increase in customer base and recovery of NPAs.

The satisfaction level of customers with regard to the help they receive from the REs is certainly a remarkable milestone in the CRM initiative of the company. From the findings on the premiums paid, claims and the satisfaction level of the customers it can be concluded that the CRM initiative was effective, and the case is a bright example in the field of financial service marketing. Taking insights from the case, other similar companies can develop avenues to understand their customer's needs and promote relationship marketing.

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Prasanta Kumar, Suar, President & National Head, STFC Ltd. He is working currently as President and National Head for STFC Ltd and pursuing his Ph. D. from School of Management, KIIT University. He is an MBA in Marketing with rich experience in sales and marketing, distribution of financial products, recovery and collection across diverse industry segments. He is adept at developing dealer network infrastructure and channel management, possess excellent relationship management, team building and motivational skills. He has the unique ability to internalise customer needs and as a result, has been instrumental in developing unique CRM initiatives in STFC. His working experience is 35 years including FMCG companies such as HUL, Wipro and Financial companies such as STFC. During his stint in the Financial companies he is involved in to Commercial Vehicle Financing, Deposit mobilisation, & Cross Selling & designing of various need based products as per the SRTO profile of the Customers such as Co-branded Credit Card & Life Insurance products.



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